



# Rule Up Discussion and Possible Filing

Proposed Amendments to

**WAC 230-40-823**

((~~House-banked card games~~)) Financial audits and reviews required =  
House-banking.

**ITEM 17 (a) on the September 12, 2003, Commission Meeting Agenda.**

**Statutory Authority 9.46.070**

## Who proposed the rule change?

Staff.

## Why is this rule change needed?

The accounting profession has developed three standards that enable CPAs to offer variety of financial statement services to businesses. Following is a brief description of the three financial performance services:

- 1) Compilation:** Useful for small companies. Financial statements are prepared based on information provided by an entity's management. There are no assurances as to the accuracy of the materials provided by the entity.
- 2) Review:** Useful for entities that report their financial positions to third parties. Financial statements are prepared based on information provided by an entity's management. However, the CPA makes inquiries and analyzes information to identify unusual items or trends. Reviews provide some degree of assurance that the financial statements are reliable.
- 3) Audit:** An audit is the most extensive service. It offers a higher level of assurance to outside parties that the financial statements fairly present the true financial position. The CPA confirms information with outside parties, observes inventories, and tests transactions by examining supporting documents. Audits provide a reasonable level of assurance that the financial statements are free of material errors and fraud.

Currently, house-banked card rooms with 5 million or more in gross receipts submit audited financial statements to Commission staff. About 20 card rooms were required to submit these statements last year. This rule change would require either a "review" or "audit" for *all* house-banked card rooms.

House-banked card rooms with gross receipts over 3 million would submit audited financial statements to Commission staff, while card rooms with gross receipts of 3 million or less would submit reviewed financial statements. This change would require an additional 57 card rooms to submit either audited or reviewed financial statements.

By requiring all house-banked card rooms to be either audited or reviewed, the business's financial position will be disclosed to Commission staff. These reports will also assist Commission staff in recognizing undisclosed substantial interest holders and loans due to the footnote disclosures that are required as part of an audit or review. It also allows for an independent party to review and test the financial data of the licensees.

### Attached Correspondence:

Notification letters dated February 20, 2003, and April 1, 2003, staff sent to all house-banked card rooms.

Letter dated June 16, 2003, from Clark, Raymond & Company, Certified Public Accountants.

Letter from Cascade Gaming, LLC, expressing concerns on lowering the audit threshold from 5 million to 3 million.

## Statements against the proposed rule change.

Cascade Gaming, LLC, does not agree the audit threshold should be lowered from 5 million to 3 million.  
(letter attached).

## Which licensees will be directly impacted?

House-banked card room licenses.

## What are the potential impacts to the agency?

Minimal.

## Staff recommendation.

File for further discussion.

## Proposed effective date.

July 1, 2004.